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FEDERAL COMMUNICATIONS COMMISSION



EX PARTE

June 7, 2000

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, D.C. 20554

RE: Application of GTE Corporation and Bell Atlantic Corporation For Consent to Transfer Control of Certain Licenses and Authorizations, CC Docket No. 98-184

Dear Ms. Salas:

The attached was provided to FCC staff as requested. It is a redline version of the Revised Exhibit A related to the applicants' Genuity proposal filed previously today. Please enter the enclosed document into the record in this matter.

Two copies of this notice are being submitted to the Secretary of the FCC in accordance with section 1.1206 of the Commission's rules.

Please call me if you have any questions.

Very truly yours,

A handwritten signature in black ink, appearing to read 'P. Koch'.

Enclosure

cc. Ms. J. Mikes

No. of Copies rec'd 0+1
List A B C D E

REVISED EXHIBIT A

GENUITY ESTABLISHED AS INDEPENDENT PUBLIC CORPORATION

Bell Atlantic and GTE will eliminate any section 271 issue that could arise from Bell Atlantic's ownership of Genuity (formerly known as GTE Internetworking) through the following structure.

1. IPO of Genuity

Genuity's existing nationwide data business will be established as a separate corporation that will be publicly owned and controlled. Before merging with Bell Atlantic, GTE will exchange its common stock of Genuity for shares of a new class of common stock, the Class B common stock, and Genuity will sell 90.5% of its equity to public shareholders through an initial public offering ("IPO"). Following these transactions, the Class B stock will carry only a 9.5% equity interest (9.5% of the voting rights and the right to receive 9.5% of any dividends or other distributions) in Genuity, subject to the conversion rights and investor safeguards described below, and Genuity's Class A common stock, initially representing 90.5% of the equity interest in the company, will be owned by the public. The merger of Bell Atlantic and GTE (creating "NewCo") will not close until the IPO is completed.

2. Conversion Rights

The extent of NewCo's rights to convert its Class B stock into a greater equity interest is as described below. NewCo will have five years from the closing of the merger (or longer, under certain specified circumstances) to satisfy the conditions associated with its conversion rights and to exercise those conversion rights.

A. No Conversion Right Above 10% Equity Interest If Threshold Not Met

Unless and until NewCo eliminates, as to at least 50% of Bell Atlantic in-region lines,¹ section 271 restrictions applicable to its operation of Genuity's business, NewCo will only have the right to convert its Class B stock into Class A stock representing a 10% equity interest in Genuity. Accordingly, if NewCo fails to meet the 50% threshold within the conversion period, NewCo will never have any right to convert its stock into more than a 10% interest, and the public shareholders' ownership of at least 90% of the company will be permanent. Likewise, if NewCo transfers its Class B shares to a third party before reaching the 50% section 271 threshold, that third party will never be able to convert those shares into more than a 10% interest in Genuity.

¹ "Bell Atlantic in-region lines" shall equal the sum of the number of lines for each of the Bell Atlantic in-region states, and the number of lines for each Bell Atlantic state shall be the number of total billable access lines for the Bell Atlantic operating company in that state in Bell Atlantic's 1999 ARMIS reports (and reported in the FCC's 1999 ARMIS Report 43-04), except that because the entry for Bell Atlantic-New York Telephone includes Bell Atlantic lines in both New York and Connecticut, the number of lines for Connecticut shall be 54,087 and the number for New York shall be 11,088,712.

B. Conversion Right Above 10% Equity Interest Once Threshold Is Met

Once NewCo has met the 50% section 271 threshold, its Class B shares will be convertible into stock that will represent approximately 80% of the outstanding shares of Genuity following conversion, assuming no additional Class A shares are issued before conversion. Even after meeting this threshold, however, NewCo itself cannot exercise its conversion rights so as to own and control Genuity unless and until NewCo has eliminated all section 271 restrictions applicable to NewCo's operation of Genuity's business.

Once NewCo has eliminated such restrictions as to 95% of Bell Atlantic in-region lines, NewCo may require Genuity to reconfigure its operations in one or more Bell Atlantic in-region states where NewCo has not eliminated such restrictions in order to bring those operations into compliance with section 271 and allow NewCo to exercise its option and own and operate Genuity, *provided that* (i) NewCo gives the Commission at least 90 days advance notice of its intent to exercise its option and submits to the Chief of the Common Carrier Bureau a plan for the reconfiguration of Genuity's operations in the relevant state or states, (ii) the reconfiguration of Genuity's operations does not result in the loss to Genuity of more than 3% of its annual revenue, and (iii) NewCo reimburses Genuity for the cost of such reconfiguration (as provided for in an agreement between NewCo and Genuity).

NewCo's post-conversion interest will be lower than 80% if Genuity, as is anticipated, issues additional shares of Class A stock before NewCo exercises its conversion rights. Upon exercise of its conversion rights, NewCo's Class B shares shall be converted into the appropriate number of Class C shares. Each share of Class C stock will be identical to a share of Class A stock except that it will carry five votes; these enhanced voting rights will likely preserve NewCo's ability to obtain voting control of Genuity post-conversion in the event Genuity has issued substantial amounts of new Class A shares. If NewCo transfers its Class B shares to another party, that party may only convert them into Class A stock.

Subject to the limitation on sales proceeds below, NewCo will have the right at any time after it has met the 50% section 271 threshold to dispose of all or part of its Class B shares, or to exercise its conversion rights as part of a transaction by which it immediately disposes of all or part of its interest in Genuity so that its post-conversion interest in Genuity does not exceed a 10% equity interest. If NewCo seeks to sell all or part of its interest in the Class B shares after it has met the 50% section 271 threshold (but before it has eliminated applicable section 271 restrictions as to 95% of Bell Atlantic in-region lines), it shall offer to sell such shares to Genuity at a price equal to the amount it would be able to retain under section 2(c) below with the purchase price payable in the form of a marketable debt instrument which will not be subordinate and will have a fair market value equal to its face value. Genuity shall have 90 days after the date it receives such an offer to agree to purchase NewCo's shares. If Genuity agrees to purchase NewCo's shares within the 90 day period, Genuity shall have 180 days after the date it receives the offer to make any financial or other arrangements and to complete the purchase. NewCo will grant any consent necessary under the investor safeguards described below in order to complete such a sale to Genuity. In the event Genuity chooses not to purchase NewCo's shares within the

90 day period after it receives such an offer (or if Genuity is unable to complete the purchase), then NewCo will transfer the shares to a disposition trustee selected in accordance with the Commission's rules for sale to a third party purchaser. Upon completion of the sale, the disposition trustee will remit to NewCo as soon as reasonably practicable the proceeds of such a sale subject to the limitation on sales proceeds in section 2(c). To the extent Class B shares are purchased by someone who is not subject to applicable section 271 restrictions, that purchaser would be free to convert those Class B shares immediately into Class A shares. If before at the time NewCo's conversion period would otherwise expire, NewCo has offered to sell Class B shares to Genuity, the conversion period will be extended to allow for sale of the Class B shares to Genuity or to another party. ~~a pending contract to sell its Class B shares to such a purchaser, the conversion period will be extended to allow for completion of the sale.~~

After NewCo has eliminated applicable section 271 restrictions as to 100% of Bell Atlantic in-region lines and simultaneous with its conversion of the shares of Class B common stock, NewCo would, at its election, either make a payment to Genuity for distribution to the holders of Class A common stock or adjust the conversion ratio, in either event so that the holders of Genuity's Class A common stock receive a portion of the appreciation on the Class B common stock (and accompanying conversion rights). That portion would be determined as follows. First, NewCo's total appreciation would be determined; that would be an amount equal to the value of NewCo's Class B common stock on an as-converted basis (determined by a nationally recognized investment banker in proportion to the appreciation in the publicly traded Class A common stock but adjusting that appreciation so that it did not reflect anticipation of the payment or conversion change contemplated by this paragraph) less the initial value of NewCo's Class B stock (based on the original IPO price). Second, the appreciation attributable to a 10% interest in Genuity would be subtracted from NewCo's total appreciation (since NewCo could have owned that without regard to section 271 restrictions). Third, as of each anniversary of the closing of the IPO, a percentage will be determined equal to 25 percent² times a fraction, the numerator of which is the number of Bell Atlantic in-region lines as to which applicable section 271 restrictions have not been eliminated and the denominator of which is the number of Bell Atlantic in-region lines.³ Fourth, those annual fractions will be averaged. And fifth, the product of that average fraction times NewCo's appreciation (less the ten percent subtracted in step two) will either be paid in cash to Genuity, in which case it will be tax adjusted (to reflect the fact that NewCo would have to pay taxes if it sold Genuity stock or other assets to raise the cash), or translated into a number of shares of Genuity stock and forgone by NewCo in the conversion, in either event giving the appropriate amount of value to the public shareholders.

² Because Genuity operates its existing data business on a nationwide (indeed, worldwide) basis, the portion of appreciation attributable to Bell Atlantic's in-region states was calculated by dividing the number of Bell Atlantic's billable access lines in its in-region states by the number of billable access lines nationwide (as both reported in the FCC's 1999 ARMIS Report 43-04). The resulting percentage was then rounded up to 25% (putting a larger portion of the appreciation at risk). This provides a conservative estimate of the portion of the appreciation attributable to Bell Atlantic's in-region lines, particularly because it does not take into account the fact that a significant and growing portion of Genuity's revenues are attributable to international operation. If Genuity's international operations were taken into account, it would reduce the percentage further.

³ "Bell Atlantic in-region lines" are as defined in note 1, *supra*.

C. Limitation on Sales Proceeds

If NewCo sells all of its stock before it has eliminated applicable section 271 restrictions as to 95% of Bell Atlantic in-region lines, NewCo will not have a right to retain after-tax sale proceeds that exceed (i) the value of a 10% equity interest in Genuity (determined based on the sale proceeds), plus (ii) the amount NewCo would have if it had taken the amount of its initial investment in Genuity above a 10% interest (based on the IPO offering price for the Class A shares) and invested it at the time of closing in the S&P 500 Index. If, during such period, NewCo sells all of its stock except an amount convertible into a 10% equity interest in Genuity, NewCo will have a right to retain only the amount described in clause (ii) above.⁴ In each of these cases, NewCo would pay the remainder of its after-tax sale proceeds, or such lesser amount as the Commission in its discretion may determine, into the general fund of the U.S. Treasury. Once NewCo has eliminated applicable section 271 restrictions as to at least 95% of Bell Atlantic's in-region lines, NewCo may sell its stock and retain the full sale proceeds.

D. Extension of Five-Year Conversion Period

If, by the end of five years, NewCo has eliminated applicable section 271 restrictions as to all but 10% of Bell Atlantic in-region lines (or as to all but one state, irrespective of the percentage of Bell Atlantic in-region lines accounted for by that state, plus additional states accounting for up to 5% of Bell Atlantic in-region lines), NewCo may file a petition with the Commission requesting relief, in the event of which filing NewCo will be permitted one additional year (which may be extended at the discretion of the Commission) in which to eliminate the remaining restrictions and exercise its conversion rights. If, by the end of the conversion period, litigation is pending over whether NewCo has eliminated such restrictions as to certain lines, and if a court determines after the end of the conversion period that NewCo has eliminated such restrictions as to those lines, then for purposes of these provisions NewCo shall be deemed to have eliminated those restrictions within the conversion period and shall be permitted a reasonable time to exercise or dispose of its conversion rights.

The Commission shall have discretion to toll or extend the running of the conversion period to account for intervening events that delay elimination of section 271 restrictions.

If, by the end of the conversion period, NewCo has eliminated applicable section 271 restrictions as to 100% of Bell Atlantic in-region lines, then NewCo shall be able to exercise its conversion rights at a time determined by NewCo (whether inside or outside the conversion period). Once Bell Atlantic/GTE has eliminated applicable section 271 restrictions as to 100% of Bell Atlantic in-region lines, it will comply with section 272 to the same extent that section 272 would apply if Bell Atlantic/GTE exercised its conversion rights, notwithstanding any delay in

⁴ Likewise, if, during such period, NewCo sells a portion of its stock but retains stock convertible into more than a 10% equity interest in Genuity, NewCo will have a right to retain only a prorated portion of the amount described in clause (ii) above; and if, during such period, NewCo sells all of its stock except for an amount convertible into less than a 10% equity interest, NewCo will have a right to retain the proceeds from the number of shares sold that, together with the number of shares retained, would be convertible into a 10% equity interest, plus the amount described in clause (ii) above.

actual conversion of its shares of Class B stock.

E. Compliance with Legal Order

If, before NewCo satisfies the 50% section 271 threshold, a court or agency rules that NewCo's interest in Genuity results in a violation of section 271, NewCo's Class B shares shall be immediately convertible to the same extent as described above in section 2.B. In such event, NewCo shall be given a reasonable time extending beyond the date that such ruling becomes final and non-appealable in which to dispose of its Class B shares to the extent they are convertible into more than a 10% interest (or to convert those shares as part of a disposition), and may sell its shares to a third party subject to the limitation on sales proceeds described above.

3. Independence of Genuity

Until NewCo eliminates the applicable section 271 restrictions and exercises its option to take ownership of Genuity, Genuity will be independent of NewCo. Genuity will have an independent board of directors that is periodically elected by the voting shareholders consistent with the requirements of applicable corporation laws. Before the IPO, Genuity will elect six directors, including the CEO of Genuity, one director elected by a class vote of the Class B shares, and four independent directors who have no prior relationship with GTE or Bell Atlantic. Within 90 days following the IPO, the four independent directors will select seven additional directors who have no prior relationship with GTE or Bell Atlantic, which will bring the total board membership to 13 directors, a majority of whom will have been selected after the IPO. In addition, as soon as practicable, but in any event within nine months following the IPO, all directors except the Class B director will stand for election by the public shareholders. The Class B director will abstain from any vote before there are at least ten directors on the board and will at no time serve as chairman of the board. Exhibit B to the April 28, 2000 *ex parte* submission of William P. Barr describes more fully how the board of Genuity will be constituted and elected.

The board and officers of Genuity will owe fiduciary duties to the public shareholders. Incentive compensation for Genuity managers will be tied to the performance of Genuity and the value of Genuity's publicly traded stock, not to the financial performance or stock value of NewCo. The initial source of financing for Genuity will be the proceeds from the IPO of Class A stock. Any additional funding required by Genuity during the period before NewCo converts its Class B stock would be raised from the public markets, possibly by issuing additional Class A shares, by issuing debt to the public, or by arm's-length commercial loans. During such period, if NewCo were to choose to make loans to Genuity, NewCo could provide no more than 25% of the aggregate debt financing that Genuity is permitted to incur.

4. Investor Safeguards

NewCo's interests as a minority investor and potential future majority shareholder of Genuity will be protected by certain reasonable investor safeguards, which are described in Exhibit C to the April 28 *ex parte* submission of William P. Barr. NewCo's rights under these safeguards will remain in effect only until NewCo converts its Class B shares (or until NewCo no

longer has a possibility of converting into more than a 10% interest). They are typical of the rights commonly held by prospective acquirers and are modeled on investor protections that have regularly been permitted by the Commission. These include the right to approve certain fundamental business changes that adversely impact the value of NewCo's minority investment and conversion rights, including a change in control of Genuity or the sale of a significant portion of its assets.

Genuity's business includes Internet backbone and related IP services. Genuity does not provide traditional switched voice long-distance service, and Genuity's business plan does not contemplate the acquisition of a traditional voice long-distance service provider. NewCo agrees not to consent, pursuant to any applicable investor safeguard rights, to Genuity's acquisition of a traditional voice long-distance provider unless the Commission has first reviewed and approved such acquisition.

5. Commercial Contracts Between NewCo and Genuity

Consistent with the fact that Genuity and NewCo will each be independent public corporations whose directors and officers will owe duties of care and loyalty to their respective shareholders, all commercial interactions between NewCo and Genuity will be pursuant to commercially reasonable contracts. (See "Commercial Contracts Between NewCo and DataCo," submitted for the record on April 3, 2000.)

Because a significant portion of Genuity's business will be outside the Bell Atlantic region or in in-region states where Bell Atlantic has eliminated applicable interLATA restrictions, NewCo will enter into a marketing agreement with Genuity for the period before NewCo exercises its conversion rights. (See "Purchase, Resale and Marketing Agreement," submitted as part of the "Commercial Contracts Between NewCo and DataCo.") Both GTE and Bell Atlantic are legally free to enter into this kind of commercial relationship today with a similarly situated company. Pursuant to this agreement, NewCo will market Genuity's services (or the two companies will market their services jointly) as and where permitted by law. For example, in New York, where Bell Atlantic has already received section 271 approval, NewCo and Genuity will jointly market Genuity's Internet connectivity services. The agreement provides that NewCo will not provide or jointly market any interLATA Genuity service in any state where NewCo does not have interLATA authority. The agreement is non-exclusive; either company may purchase from or sell to others. This marketing agreement will enable customers to begin realizing immediately some of the important Internet benefits promised by NewCo's eventual acquisition of Genuity and will also help to preserve Genuity's integrity and competitiveness until then.

NewCo and Genuity will also enter into certain additional commercial contracts, including contracts for transitional administrative support services to help ensure Genuity's stand-alone viability following the Genuity IPO. These transitional support contracts are typical of the commercially reasonable transitional arrangements that would be needed if Genuity were sold to a third party today. They will have a term of one year or less and will be terminable at any time by Genuity without penalty. In addition, these transitional services contracts will not ~~may only be~~ renewed by the parties, ~~if NewCo submits the contract in question to the Commission and~~

~~provides 60-days advance notice to the Commission of the parties' intent to renew the contract and if, within such 60-day period, the Chief of the Common Carrier Bureau has not provided written notice to NewCo objecting to such renewal. The list of transitional services, with the timeframes for each service within which Genuity will transition from NewCo, is attached to this exhibit as Attachment 1. NewCo will not have any role in hiring or firing Genuity employees, and Genuity will not rely upon any network monitoring from NewCo after October 31, 2000.~~

6. Independent Auditor

NewCo will hire an independent auditor, acceptable to the Chief of the Common Carrier Bureau, to monitor NewCo's ongoing compliance with the terms of this Revised Exhibit A.